



BANK OF CANADA  
BANQUE DU CANADA

# Business Outlook Survey

Conducted by the Bank's Regional Offices

Results of the Winter 2007–08 Survey

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## Overview

- Overall, firms remain positive about the outlook, with the results of the winter survey showing little change from those of the autumn survey. Nonetheless, firms reported more uncertainty in light of recent developments, most notably the volatility in the value of the Canadian dollar.
- Following an increase in sales growth over the past year, firms expect sales to grow at the same pace over the next 12 months.
- The percentage of firms reporting that they would have difficulty meeting an unexpected increase in demand reached a new high. Nevertheless, firms expect price pressures to remain contained, owing partly to the stronger Canadian dollar.

## Business Activity

Firms in both the goods and services sectors reported an increase in sales growth over the past 12 months (Chart 1), and the zero balance of opinion on future sales growth indicates that, overall, firms expect sales to increase at the same pace over the next 12 months (Chart 2). Expectations of solid domestic demand are helping to offset the dampening effect of the most recent appreciation of the Canadian dollar and a weaker outlook for U.S. economic growth on firms'

Chart 1 Past Sales Growth: Balance of Opinion\*

Over the past 12 months, the rate of increase in your firm's sales volume (compared with the previous 12 months) was . . .

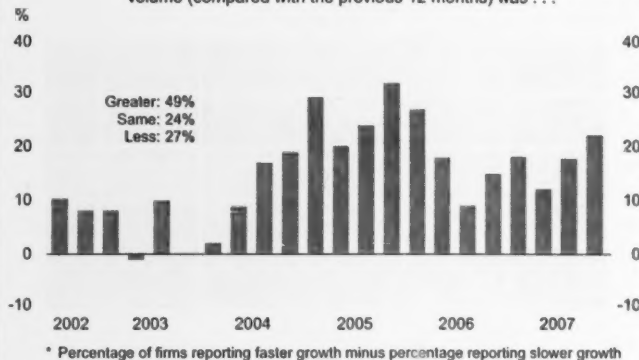
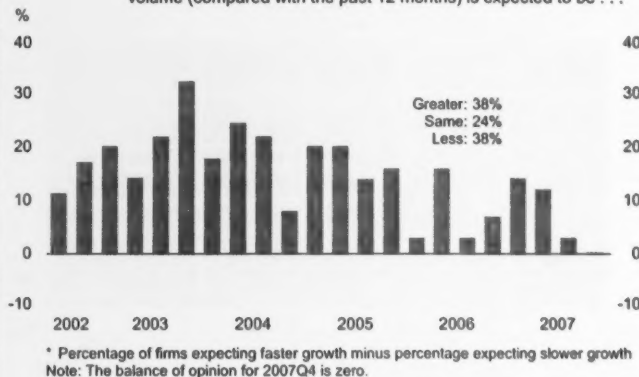


Chart 2 Future Sales Growth: Balance of Opinion\*

Over the next 12 months, the rate of increase in your firm's sales volume (compared with the past 12 months) is expected to be . . .



The Business Outlook Survey summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of interest to the Bank of Canada (such as demand and capacity pressures) and their forward-looking views on economic activity. Additional information on the survey and its content is available on the Bank of Canada's website at [www.bankofcanada.ca/en/bos/index.html](http://www.bankofcanada.ca/en/bos/index.html). The winter 2007–08 survey was conducted from 15 November to 14 December 2007.

The opinions expressed are those of the respondents and do not necessarily reflect the views or policies of the Bank of Canada. The method of sample selection ensures a good cross-section of opinion. Nevertheless, the statistical reliability of the survey is limited, given the small sample size.

sales expectations. Nonetheless, many firms reported increased uncertainty about the economic outlook. As noted in recent surveys, the low level of drilling in the natural gas sector continues to constrain the sales expectations of firms in Western Canada.

The balance of opinion on investment in machinery and equipment is essentially unchanged from the autumn survey and continues to point to an increase in investment spending over the next 12 months (**Chart 3**). Firms that reported lower intentions attributed this mainly to heavy investment spending over the past year.

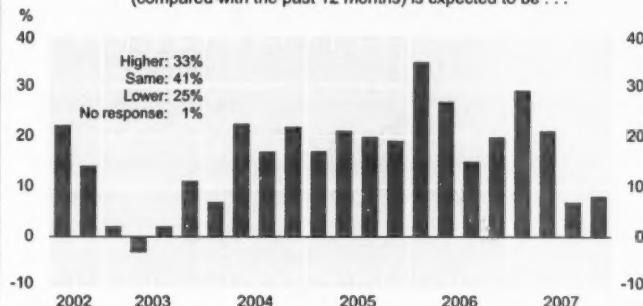
The balance of opinion on employment continues to suggest that firms will increase employment over the next 12 months (**Chart 4**). The decline from the autumn survey occurred among firms operating below capacity; the balance of opinion remains strong among firms reporting capacity pressures.

## Pressures on Production Capacity

Driven by increased pressures in the services sector, capacity pressures rose to a new high in this survey, with 60 per cent of all firms reporting that they would have some or significant difficulty meeting an unexpected increase in demand (**Chart 5**). Pressures remain elevated in Western Canada and continued to rise in the rest of the country. Labour continues to be the most commonly reported constraint on production capacity.

**Chart 3 Investment in Machinery and Equipment: Balance of Opinion\***

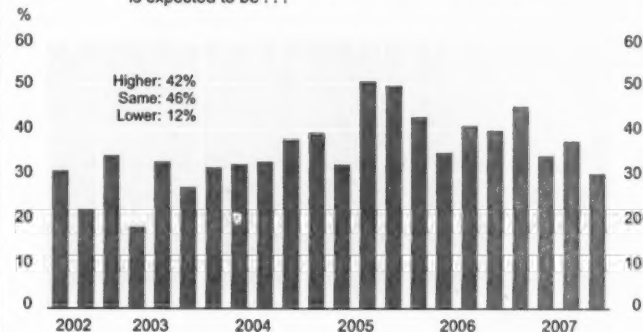
Over the next 12 months, your firm's investment spending on M&E (compared with the past 12 months) is expected to be . . .



\* Percentage of firms expecting greater investment minus the percentage expecting less investment

**Chart 4 Future Employment Level: Balance of Opinion\***

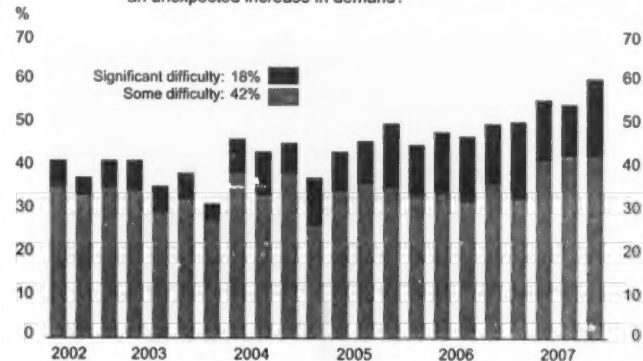
Over the next 12 months, your firm's level of employment is expected to be . . .



\* Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

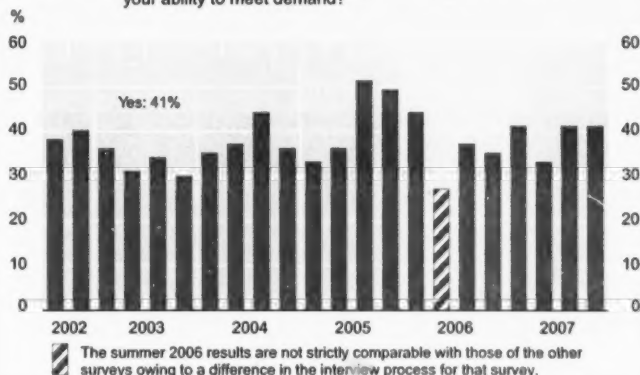
**Chart 5 Ability to Meet Demand**

How would you rate the current ability of your firm to meet an unexpected increase in demand?



**Chart 6 Labour Shortages**

Does your firm face any shortages of labour that restrict your ability to meet demand?



The percentage of firms reporting that labour shortages are currently restricting their ability to meet demand is unchanged from the level in the autumn survey (**Chart 6**). Labour shortages are more pronounced in Western Canada, particularly among firms located in British Columbia.

**Chart 7 Input Price Inflation: Balance of Opinion\***

Over the next 12 months, are prices of products/services purchased expected to increase at a greater, lesser, or the same rate as over the past year?



## Prices and Inflation

The balance of opinion on input prices is modestly negative, indicating that businesses expect the price of inputs to rise at a slower pace than over the past 12 months (**Chart 7**). This result, driven by firms in the goods sector, partly reflects expectations of reduced momentum in the prices of commodities, such as energy and metals, and the higher value of the Canadian dollar.

**Chart 8 Output Price Inflation: Balance of Opinion\***

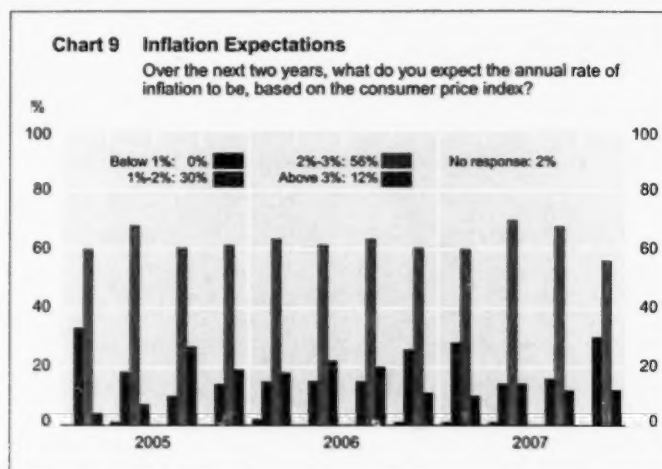
Over the next 12 months, are prices of products/services sold expected to increase at a greater, lesser, or the same rate as over the past year?



The percentage of firms expecting their output prices to increase at a slower pace is nearly equal to those expecting a faster rate of growth, leaving the balance of opinion on output prices close to zero (**Chart 8**). Many firms noted that the dampening effect of the stronger Canadian dollar on import prices is expected to help mitigate other cost pressures.

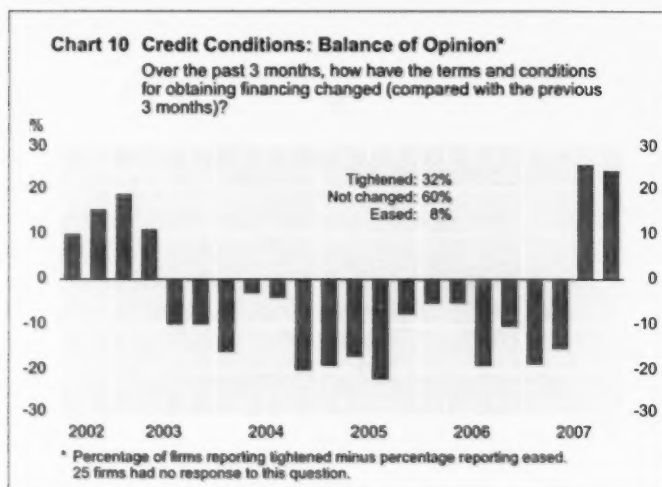
Of note, many firms reported increased uncertainty surrounding their outlook for input and output prices, given the rapid movements in the value of the Canadian dollar in recent months and uncertainty about the dollar's future path.

Inflation expectations have moderated since the autumn survey. While 86 per cent of firms expect consumer price inflation over the next two years to fall within the Bank of Canada's inflation-control range of 1 to 3 per cent, there has been a shift in expectations from the upper half to the lower half of that range.



## Credit Conditions

The balance of opinion on credit conditions indicates a tightening in firms' terms and conditions for obtaining financing over the past three months. Most firms attributed the tightening to a market-wide repricing of risk. The shift in the balance of opinion from a position of easing to one of tightening (i.e., a swing from a negative to a positive balance of opinion) occurred in the autumn survey, largely reflecting the impact of the credit-related financial market turmoil that began in August 2007.



For background information on the new charts introduced in this publication, please refer to the document "Backgrounder on Questions in the *Business Outlook Survey* Concerning Past Sales and Credit Conditions" on the Bank of Canada's website: [www.bankofcanada.ca/en/bos/index.html](http://www.bankofcanada.ca/en/bos/index.html).

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